

**ANNUAL
FINANCIAL REPORT
OF THE
CITY OF HARLAN, IOWA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2015**

**CITY OF HARLAN, IOWA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015
TABLE OF CONTENTS**

INTRODUCTORY SECTION

	Page
List of Principal Officials	1

FINANCIAL SECTION

Independent Auditors' Report	2 – 3
Management and Discussion Analysis	4 – 14

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Position	15
Statement of Activities	16 – 17

FUND FINANCIAL STATEMENTS

Governmental Funds Financial Statements

Balance Sheet	18 – 19
Reconciliation of the Balance Sheet to the Statement of Net Position	20
Statement of Revenues, Expenditures and Changes in Fund Balances	21 – 22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	23

Proprietary Funds Financial Statements

Statement of Net Position	24
Statement of Revenues, Expenses and Changes in Net Position	25
Statement of Cash Flows	26 – 27

Fiduciary Funds Financial Statements

Combined Statement of Fiduciary Net Position	28
Statement of Changes in Fiduciary Net Position	29

Notes to Financial Statements	30 – 52
-------------------------------------	---------

Required Supplementary Information

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – Governmental Funds and Proprietary Funds	53 – 54
Budget to GAAP Reconciliation	55
Notes to Required Supplementary Information – Budgetary Reporting	56
Schedule of the City's Proportionate Share of the Net Pension Liability	57
Schedule of the City's Contributions to IPERS	58
Notes to Required Supplemental Information – Pension Liability	59 – 60
Schedule of Funding Progress for Retiree Health Plan	61

CITY OF HARLAN, IOWA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015
TABLE OF CONTENTS

FINANCIAL SECTION – (CONTINUED)

	Page
<hr/>	
Other Supplementary Information	
Governmental Non-Major Funds Combining Financial Statements	
Balance Sheet	62 – 64
Statement of Revenues, Expenditures and Changes in Fund Balances	65 – 67
Internal Service Non-Major Funds Combining Financial Statements	
Combining Statement of Net Position	68
Combining Statement of Revenues, Expenses and Changes in Net Position	69
Combining Statement of Cash Flows	70
Fiduciary Funds	
Statement of Changes in Assets and Liabilities – Agency Funds	71
Combining Statement of Fiduciary Net Position	72
Combining Statement of Changes in Net Position	73
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	74 – 75
Schedule of Findings	76 – 77

* * * *

CITY OF HARLAN
List of Principal Officials
June 30, 2015

Title	Name
Mayor	Gene Gettys
Council Member	Jay Christensen
Council Member	Mike Kolbe
Council Member	David Pedersen
Council Member	Sharon Kroger
Council Member	Dan Schumacher
Council Member	Dave Miller
City Attorney	Todd Argotsinger
City Administrator/City Engineer	Terri Cox
City Clerk	Debra Sawyer
City Treasurer	Marjorie Ahrenholtz



21 1st Avenue NW
P.O. Box 1010
Le Mars, IA 51031
Phone (712) 546-7801
Fax (712) 546-6543
www.williamscpas.com

INDEPENDENT AUDITOR'S REPORT

The Honorable Members of the City Council
City of Harlan, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the CITY OF HARLAN, IOWA (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Harlan Municipal Utilities, (a discretely presented component unit), which statements reflect total assets of \$54,394,841 and total program revenues of \$14,875,557 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to the amounts included for the Harlan Municipal Utilities, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Harlan, Iowa, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9 to the financial statements, the City of Harlan adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, net pension liability information and schedule of funding progress for retiree health plan on pages 4 through 14 and 53 through 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2015, on our consideration of the City of Harlan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Harlan's internal control over financial reporting and compliance.

Williams & Company P.C.
Certified Public Accountants

Le Mars, Iowa
November 17, 2015

Management's Discussion and Analysis

June 30, 2015

This discussion and analysis of the City of Harlan financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2015. We encourage the readers to consider the information presented here in conjunction with the City's financial statements that follow this report, as well as the separately issued financial statements of Harlan Municipal Utilities, a discretely presented component units of the City.

Financial Highlights

- The assets of the City of Harlan exceeded liabilities at June 30, 2015 by \$14,295,612. Of this amount, \$2,436,767 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position decreased by \$1,212,651 during the year. Of this amount, the governmental activities decreased by \$1,269,342 and the net position of our business-type activities increased by \$56,691.
- The City's long-term debt decreased \$1,210,000 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to the Management Discussion and Analysis, this annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government. An additional part of the basic financial statements are the Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

REPORTING THE CITY AS A WHOLE

The Statement of Net Position and the Statement of Activities

The government-wide statements report information about the City as a whole using accounting methods similar to those used by the private sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenue and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by the private-sector companies. These two statements report the City's net position, which is the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. Additional factors, such as changes in the City's property tax base and condition of the City's infrastructure, are also important in making this determination.

In the Statement of Net Position and the Statement of Activities, we have divided the City into two kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, such as Police, Fire, Public Works, and Parks departments, and general administration. Taxes finance most of these activities.
- **Business Type Activities** – The City charges fees to customers to cover the cost of these services. Included here is the City's Sewer fund.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds- not the City as a whole. Some funds are required to be established by State law or by bond requirements. The City Council also established funds to control and manage money for particular purposes (such as construction projects) and to show that it is properly using certain revenues (such as Sales Tax Revenues). The City has the following types of funds:

Governmental Funds – Most of the City's basic services are included in Governmental Funds, which focus on how money moves into and out of these funds and the balances left at year-end are available for spending. These funds are reported using the "modified accrual basis" of accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund Statements provide a detailed short-term view of the City's general governmental operations and basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship between Governmental Activities (reported in the Statement of Net Position and the Statement of Activities) and Governmental Funds in a reconciliation following each Governmental Fund financial statement.

- **Proprietary Funds** – When the City charges customers for the service it provides, these services are generally reported in Proprietary Funds. Proprietary Funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The major difference between the Proprietary Fund report and the Business Type Activity we report in the government-wide statements is the detail and additional information, such as cash flows, provided in the Proprietary Fund report.

THE CITY AS TRUSTEE

Reporting the City's Fiduciary Responsibilities

Fiduciary Funds are used to account for resources held for the benefit of parties outside the City government. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found behind the Fiduciary Funds statements.

THE CITY AS A WHOLE

As stated earlier, net position may serve over time as a useful indicator of a government's financial position. The largest part of the City's net position reflects its investment in capital assets (land, buildings and improvements, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must

be provided from the other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following comparative chart shows the changes in net position for the years ended June 30, 2015 and 2014.

	General Governmental Activities		Business-Type Activities	
	2015	2014	2015	2014
Current and Other Assets	\$ 5,692,520	\$ 7,280,553	\$ 2,520,415	\$ 2,318,493
Capital Assets	13,851,245	13,956,480	4,461,575	4,551,115
Total Assets	19,543,765	21,237,033	6,981,990	6,869,608
Deferred Outflows of Resources	200,388	-	-	-
Long-Term Liabilities	6,284,073	6,715,973	2,089,679	2,231,814
Other Liabilities	234,075	270,686	222,393	24,567
Total Liabilities	6,493,539	6,986,659	2,312,072	2,256,381
Deferred Inflows of Resources	3,600,311	2,488,214	-	-
Net Position:				
Net Investment in Capital Assets	8,386,636	10,261,480	2,386,433	2,333,270
Restricted	1,085,776	222,144	-	-
Unrestricted	153,282	1,278,536	2,283,485	2,279,957
Total Net Position	\$ 9,650,303	\$ 11,762,160	\$ 4,669,918	\$ 4,613,227

	Totals	
	2015	2014
Current and Other Assets	\$ 8,212,935	\$ 9,599,046
Capital Assets	18,312,820	18,507,595
Total Assets	26,525,755	28,106,641
Deferred Outflows of Resources	200,388	-
Long-Term Liabilities Outstanding	8,373,752	8,947,787
Other Liabilities	456,468	295,253
Total Liabilities	8,830,220	9,243,040
Deferred Inflows of Resources	3,600,311	2,488,214
Net Position:		
Net Investment in Capital Assets	10,773,069	12,594,750
Restricted	1,085,776	222,144
Unrestricted	2,436,767	3,558,493
Total Net Position	\$14,255,612	\$16,375,387

This summary reflects a decrease of 17.9% for the governmental net position and an increase of 1.22% in the business-type net position. The governmental net position decrease is due primarily to the increase in maintenance projects. The business-type activities was consistent with prior years.

Total revenue reported in Fiscal 2015 was \$8,187,067. The following table breaks down revenues collected for General Governmental Activities and Business-Type Activities for Fiscal Year 2015 and 2014:

Revenue Source	General Governmental Activities		Business-Type Activities	
	2015	2014	2015	2014
Program Revenues:				
Charges for Services	\$ 2,242,601	\$ 1,892,367	\$ 986,111	\$ 931,107
Operating Grants and Contributions	762,447	950,188	-	-
Capital Grants and Contributions	65,501	-	-	-
Total Program Revenues	3,070,549	2,842,555	986,111	931,107
General Revenues & Transfers				
Property Taxes	3,195,392	3,097,939	-	-
Local Option Sales Tax	542,028	505,426	-	-
Interest	10,278	12,230	4,886	2,549
Payment in Lieu of Tax	245,066	289,583	-	-
Gain on Disposition of Assets	4,000	237,259	-	-
Miscellaneous	128,757	404,623	-	-
Transfers	(504,548)	(226,321)	504,548	226,321
Total General Revenues & Transfers	3,620,973	4,320,739	509,434	228,870
Total Revenues & Transfers:	\$ 6,691,522	\$ 7,163,294	\$ 1,495,545	\$ 1,159,977

Revenue Source	Totals	
	2015	2014
Program Revenues:		
Charges for Services	\$ 3,228,712	\$ 2,823,474
Operating Grants and Contributions	762,447	950,188
Capital Grants and Contributions	65,501	-
Total Program Revenues	4,056,660	3,773,662
General Revenues & Transfers:		
Property Taxes	3,195,392	3,097,939
Local Option Sales Tax	542,028	505,426
Interest	15,164	14,779
Payment in Lieu of Tax	245,066	289,583
Gain on Sale of Assets	4,000	237,259
Miscellaneous	128,757	404,623
Transfers	-	-
Total General Revenues & Transfers	4,130,407	4,549,609
Total Revenues & Transfers:	\$ 8,187,067	\$ 8,323,271

Revenue increased due to a decrease in intergovernmental revenues and an increase in internal service fund revenue.

Program revenues totaled \$4,056,660 for fiscal year 2015. Governmental Activities provided \$3,070,549 and Business-Type Activities provided \$986,111.

General Revenues and Transfers for fiscal year 2015 totaled \$4,130,407. Governmental Activities provided \$3,620,973 and Business-Type Activities provided \$509,434. Property Tax Revenues for fiscal year 2015 totaled \$3,195,392.

Expenses for Fiscal 2015 totaled \$9,375,109. Expenses for Governmental Activities totaled \$7,936,255, accounting for 84.65% of total expenses. Business-Type Activity expenses totaled \$1,438,854, for 15.35% of the total.

The following table shows total expenditures by Function/Program for FY 2015 and FY 2014:

	Governmental Activities		Business-Type Activities	
	2015	2014	2015	2014
Public Safety	\$ 1,449,236	\$ 1,388,382	\$ -	\$ -
Public Works	2,259,762	2,007,918	-	-
Culture and Recreation	1,474,614	1,156,856	-	-
Community & Economic Development	348,562	616,639	-	-
General Government	2,176,518	1,842,804	-	-
Debt Service	252,172	209,646	-	-
Sewer System	-	-	1,438,854	796,918
Total Expenditures	\$ 7,960,864	\$ 7,222,245	\$ 1,438,854	\$ 796,918

	Totals	
	2015	2014
Public Safety	\$ 1,449,236	\$ 1,388,382
Public Works	2,259,762	2,007,918
Culture and Recreation	1,474,614	1,156,856
Community & Economic Development	348,562	616,639
General Government	2,176,518	1,842,804
Debt Service	252,172	209,646
Sewer System	1,438,854	796,918
Total Expenditures	\$ 9,399,718	\$ 8,019,163

Expenses in the following functions changed as follows:

Public safety increased due to a change in fire call payments to firemen, ambulance costs and social security payments for the police department.

Public works increased due to a major street repair and seal coat project in the current year.

Culture and Recreation increased due to renovations at Pioneer Park.

Community and economic development decreased due to final economic developments to two organizations in 2014 totaling \$225,000.

The Sewer fund increased expenditures due primarily to a sewer pipe cleaning and repair project in 2015.

The following table shows the activities included within each program level:

<u>Program Level</u>	<u>Activity</u>
Public Safety	Police, Fire, Ambulance
Public Works	Roadway Construction, Airport Operations, Street Lighting, Transportation Services
Culture and Recreation	Education & Culture, Leisure Time Opportunities
Community and Economic Development	Economic Development, Community Beautification, Planning and Zoning
General Government	Administration, Support Services
Debt Service	Payment of Interest
Sewer System	Operation of the Waste Water Treatment Plant/Supply Distribution System

Governmental of Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. Please note that the expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense) Revenue calculation. This format highlights the respective financial burden that each of the functions place on the taxpayers. For example, for Public Safety, the City spent \$1,449,236 and received \$112,198 in revenue, thus leaving a cost to the taxpayer of \$1,337,038 to be funded by various methods. The new format also identifies how much each function draws from general revenues or is self-financing through fees or grants. Some of the individual line item revenues reported for each function are:

Public Safety	Fines, Fees
Public Works	Road Use Tax, Rent, Special Assessments
Culture and Recreation	Fees, State Aid
General Government	Licenses, Permits
Capital Projects	Donations, State Grants, Federal Grants

The total cost of governmental activities this year was \$7,960,864. Of these costs, \$2,242,601 was paid by those who directly benefited from the programs. Costs paid by other governments and organizations that subsidized certain programs with grants and contributions were \$827,948, leaving a Net Expense of \$4,890,315 for Governmental Activities. These expenses of were covered with tax revenues, interest and other general revenues. The Statement of Activities in the financial statements provides further detail. The Net (Expense) Revenue by Governmental Activity is shown in the following table:

Functions/Programs	Net (Expense) Revenue	
	2015	2014
Governmental Activities:		
Public Safety	\$ (1,337,038)	\$ (1,212,882)
Public Works	(1,317,849)	(1,045,067)
Culture and Recreation	(1,195,131)	(721,977)
Community and Economic Development	(298,447)	(395,584)
General Government	(489,678)	(794,534)
Debt Service	(252,172)	(209,646)
Total Net (Expense) Revenue Governmental Activities	(4,890,315)	(4,379,690)
General Revenues & Interfund Transfers	3,620,973	4,320,739
Change in Net Position	\$ (1,269,342)	\$ (58,951)

Total resources available during the year to finance governmental operations were \$17,586,558 consisting of Net Position at July 1, 2014, of \$10,895,036, Program Revenues of \$3,070,549 and General Revenues and Transfers of \$3,620,973. Total Governmental Activities during the year expended \$7,960,864; thus, Net Position was decreased by \$1,269,342 to \$9,625,694.

Business Type Activities

Business Type Activities increased the City's net position by \$56,691.

The cost of all Proprietary Activities this year was \$1,438,854. As shown in the Statement of Activities, the amounts paid by users of the systems were \$986,111, resulting in total Net Revenue for Business Type Activities of \$(452,743). The Net (Expense) Revenue by Business Type Activity is shown in the following table:

Business-Type Activities	Net (Expense) Revenue	
	2015	2014
Sewer	\$ (452,743)	\$ 134,189
General Revenues & Interfund Transfers	509,434	228,870
Change in Net Position	\$ 56,691	\$ 363,059

Total resources available during the year to finance Proprietary Fund activities were \$6,108,772 consisting of Net Position at July 1, 2014, of \$4,613,227, Program Revenues of \$986,111 and General Revenues and Transfers of \$509,434. Total Proprietary Fund Activities during the year expended \$1,438,854; thus Net Position was increased by \$56,691 to \$4,669,918.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. The City's Governmental Funds reported combined ending fund balances of \$1,796,011. The combined Governmental Funds balance decreased \$2,158,487 from the prior year primarily due to repayment of refunded debt.

The General Fund is the primary operating fund of the City. During the year, expenditures exceeded revenues in the General fund by \$73,941.

The Employee Benefit Fund is used to account for the collection and disbursement of property tax dollars exclusively for payment of employee benefits. During the year, expenditures exceeded revenues by \$1,880.

The Urban Renewal Fund is used for the collection and disbursement of TIF financed projects.

The Local Option Sales Tax Fund is used to account for the collection and disbursement of local option sales tax dollars.

The Debt Service Fund is used to account for collection of general property taxes for the repayment of general obligation debt.

The Industrial Park Fund is used to account for economic development expenditures in the industrial park and the construction of a new police building.

General Fund Budgetary Highlights

Comparing the fiscal year 2015 original (adopted) city wide amount of \$20,335,726 to the final budget amount of \$22,067,297 shows a net increase of \$1,731,571.

The following table shows the government wide budget variances by program:

Disbursements	Amended Budget	Actual	Variance
Public Safety	\$ 1,296,710	\$ 1,361,631	\$ (64,921)
Public Works	1,245,200	1,392,917	(147,717)
Culture and Recreation	877,892	1,128,567	(240,675)
Community and Economic Development	133,602	320,195	(186,593)
General Government	827,878	723,038	104,840
Debt Service	604,740	3,152,985	(2,548,245)
Capital Projects	651,000	1,084,326	(433,326)
Business-Type Activities	16,420,275	15,068,983	1,351,292
Total Disbursements	\$ 22,067,297	\$ 24,232,642	\$(2,165,345)

The budgeted increase in disbursements is due primarily to changes in HMU costs not initially budgeted and for an increase in debt service payments.

Capital Assets

The City's investment in capital assets, including land, buildings and improvements, equipment, streets, and other infrastructure represents the value of the resources utilized to provide services to our citizens. The investment in capital assets as of June 30, 2015, was \$18,312,820 (net of accumulated depreciation). The gross additions to capital assets for fiscal 2015 are as follows:

	General Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$ -	\$ 16,000	\$ -	\$ -	\$ -	\$ 16,000
Building and Equipment	798,858	399,532	-	110,618	798,858	510,150
Infrastructure	-	-	-	-	-	-
Construction in Progress	339,832	36,244	104,875	-	444,707	36,244
Total Gross Additions	\$ 1,138,690	\$ 451,776	\$ 104,875	\$ 110,618	\$1,243,565	\$ 562,394

Construction in Progress at June 30, 2015 for governmental activities consisted of costs associated with airport improvements and construction in progress for the business-type activities consisted of sewer system improvements.

See Note 6 to the financial statements for more information on the City's capital assets.

DEBT ADMINISTRATION

At year-end the City had \$7,480,000 of general obligation debt outstanding. Of this amount, \$5,440,000 comprises debt paid by property taxes or TIF revenue. The remainder of \$2,040,000 is debt being paid by sewer revenue.

Debt administration is on track, with all of the City debt repaid within the next 15 years. This rapid repayment, when combined with the use of TIF has allowed the City to maintain our good rating. This reflects well on our community.

The City continues to operate well under State debt capacity limitations. The State limits the amount of General Obligation Debt Outstanding to 5% of the assessed value of all taxable property in the community. Thus, our debt capacity is \$13,031,940. With outstanding General Obligation Debt applicable to this limit of \$7,480,000, we are utilizing 57% of this limit. More detailed information on debt administration is provided in Note 7 of the financial statements.

ECONOMIC FACTORS

The City of Harlan works hard to maintain a positive approach to growth and development. Projects being reviewed for future completion to enhance the community include:

- G.H. Christiansen Subdivision multi-housing.
- A new fire truck that will take two budget years to acquire, starting in fiscal year 2016/17. (\$500,000)
- Updated sound system for downtown, which will cost around \$42,000.
- Adding Christmas lights to an additional 12 block area of the square; this will take the next three years.
- Airport will be doing a new runway lighting project, which is approximately \$280,000.
- Starting the process of a dog park on City property.
- There has been quite a few sewer updates, including UV Disinfection Facility and digester lids. These projects should be done in 2016/17.
- Looking at new restrooms and seating at J.J. Jensen Park in 2016/17.
- Hansen House Memory Care facility proposed for the G.H. Christiansen Subdivision.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Terry Cox at 712-755-5137.

CITY OF HARLAN, IOWA
STATEMENT OF NET POSITION
June 30, 2015

	Primary Government			Component Unit
	Governmental	Business-Type	Total	Harlan Municipal
	Activities	Activities		Utilities
ASSETS				
Cash and Cash Equivalents	\$ 1,983,949	\$ 2,389,683	\$ 4,373,632	\$ 7,359,962
Receivables (Net, where applicable, of allowance for uncollectibles)				
Accounts	82,618	147,850	230,468	1,861,183
Taxes	39,007	-	39,007	
Subsequent Year Taxes	3,208,405	-	3,208,405	
Estimated Unbilled Usage	-	-	-	371,626
Internal Balances	68,930	(68,930)	-	
Due from Other Governmental Agencies	109,166	-	109,166	
Inventories	38,769	34,000	72,769	425,863
Prepaid Assets	161,676	17,812	179,488	150,538
Restricted Assets:				
Cash and Cash Equivalents	-	-	-	9,497,108
Land	16,000	22,500	38,500	
Construction in Progress	267,283	104,875	372,158	
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	13,567,962	4,334,200	17,902,162	34,728,561
Total Assets	19,543,765	6,981,990	26,525,755	54,394,841
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related Deferred Outflows	200,388	-	200,388	202,418
LIABILITIES				
Accounts Payable	87,636	203,170	290,806	1,861,937
Accrued Wages	104,535	15,625	120,160	183,034
Other Accrued Expenses	-	-	-	20,244
Customer Deposits	-	-	-	41,341
Claims Incurred But Not Reported	32,573	-	32,573	
Accrued Interest Payable	9,331	3,598	12,929	192,411
Noncurrent Liabilities:				
Due within one year:				
Revenue Bonds Payable	-	-	-	880,000
General Obligation Bonds	495,000	150,000	645,000	-
Notes Payable	-	-	-	164,967
Compensated Absences and Benefits	85,773	14,537	100,310	-
Due in more than one year:				
Revenue Bonds Payable	-	-	-	14,363,495
Notes Payable	-	-	-	989,800
General Obligation Bonds	4,969,609	1,925,142	6,894,751	-
Other Post Employment Benefits	148,312	-	148,312	-
Net Pension Liability	585,379	-	585,379	1,006,792
Total Liabilities	6,518,148	2,312,072	8,830,220	19,704,021
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Subsequent Year Taxes	3,208,405	-	3,208,405	-
Pension Related Deferred Inflows	391,906	-	391,906	383,961
Total Deferred Inflows of Resources	3,600,311	-	3,600,311	383,961
NET POSITION				
Net Investment in Capital Assets	8,386,636	2,386,433	10,773,069	18,330,299
Restricted for:				
Debt Service	707,409	-	707,409	-
Employee Benefits	6,600	-	6,600	-
Local Option Sales Tax Purposes	154,014	-	154,014	-
Streets	216,746	-	216,746	-
Housing Grant	1,007	-	1,007	-
Unrestricted	153,282	2,283,485	2,436,767	16,178,978
Total Net Position	\$ 9,625,694	\$ 4,669,918	\$ 14,295,612	\$ 34,509,277

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Public Safety	\$ 1,449,236	\$ 39,490	\$ 72,708	\$ -
Public Works	2,259,762	332,370	544,042	65,501
Culture and Recreation	1,474,614	183,901	95,582	-
Community and Economic Development	348,562	-	50,115	-
General Government	2,176,518	1,686,840	-	-
Debt Service	252,172	-	-	-
Total governmental activities	<u>7,960,864</u>	<u>2,242,601</u>	<u>762,447</u>	<u>65,501</u>
Business-Type Activities:				
Sewer System	<u>1,438,854</u>	<u>986,111</u>	<u>-</u>	<u>-</u>
Total Business-Type Activities:	<u>1,438,854</u>	<u>986,111</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>9,399,718</u>	<u>3,228,712</u>	<u>762,447</u>	<u>65,501</u>
Component Unit:				
Harlan Municipal Utilities	<u>\$ 13,165,897</u>	<u>\$ 14,875,557</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:
Property Taxes
Other Taxes
Local Option Sales Tax
Hotel/Motel Taxes
Unrestricted Interest
Gain on Bond Refunding
Payments in Lieu of Tax
General Revenue
Gain on Disposition of Assets
Miscellaneous
Proceeds on Bond Issues
Interfund Transfers
Total general revenues and transfers
Change in net position

Net Position - beginning

Prior Period Adjustment

Net Position - beginning, as restated

Net Position - ending

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Business-Type Activities	Total	Component Unit Harlan Municipal Utilities
\$ (1,337,038)		\$ (1,337,038)	
(1,317,849)		(1,317,849)	
(1,195,131)		(1,195,131)	
(298,447)		(298,447)	
(489,678)		(489,678)	
(252,172)		(252,172)	
<u>(4,890,315)</u>		<u>(4,890,315)</u>	
	\$ (452,743)	(452,743)	
	<u>(452,743)</u>	<u>(452,743)</u>	
(4,890,315)	(452,743)	(5,343,058)	
			\$ 1,709,660
2,537,981	-	2,537,981	-
657,411	-	657,411	-
496,352	-	496,352	-
45,676	-	45,676	-
10,278	4,886	15,164	61,579
-	-	-	-
245,066	-	245,066	-
-	-	-	-
4,000	-	4,000	-
128,757	-	128,757	-
-	-	-	-
(504,548)	504,548	-	-
<u>3,620,973</u>	<u>509,434</u>	<u>4,130,407</u>	<u>61,579</u>
(1,269,342)	56,691	(1,212,651)	1,771,239
11,762,160	4,613,227	16,375,387	34,005,418
<u>(867,124)</u>	<u>-</u>	<u>(867,124)</u>	<u>(1,267,380)</u>
10,895,036	4,613,227	15,508,263	32,738,038
<u>\$ 9,625,694</u>	<u>\$ 4,669,918</u>	<u>\$ 14,295,612</u>	<u>\$ 34,509,277</u>

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
BALANCE SHEET
Governmental Funds
June 30, 2015

	General	Debt Service
Assets		
Cash and Cash Equivalents	\$ 440,505	\$ 642,184
Receivables (Net, where applicable, of allowance for uncollectibles)		
Accounts	82,468	-
Taxes	14,877	5,626
Subsequent Year Taxes	1,485,638	480,249
Due from Other Funds	-	68,930
Due from Other Governmental Agencies	-	-
Inventories	1,155	-
Total Assets	<u>2,024,643</u>	<u>1,196,989</u>
Liabilities		
Liabilities		
Accounts Payable	35,881	-
Accrued Wages	95,693	-
Due to Other Funds	7,135	-
Total Liabilities	<u>138,709</u>	<u>-</u>
Deferred Inflows of Resources		
Unavailable revenue - subsequent year taxes	1,485,638	480,249
Total Deferred Inflows of Resources	<u>1,485,638</u>	<u>480,249</u>
Fund Balances		
Non-Spendable:		
Inventories	1,155	-
Restricted:		
Debt Service	-	716,740
Employee Benefits	-	-
Local Option Sales Tax Purposes	-	-
Streets	-	-
Housing Grant	-	-
Assigned:		
Capital Projects	-	-
Unassigned	399,141	-
Total Fund Balances	<u>400,296</u>	<u>716,740</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,024,643</u>	<u>\$ 1,196,989</u>

See Accompanying Notes to Financial Statements

Special Revenue			Capital Project		Other	Total
Employee Benefits	Local Option Sales Tax	Urban Renewal	Industrial Park	Governmental Funds	Governmental Funds	
\$ -	\$ 123,516	\$ -	\$ 253,490	\$ 165,912	\$ 1,625,607	
-	-	-	150	-	82,618	
6,600	-	11,904	-	-	39,007	
591,000	-	651,518	-	-	3,208,405	
-	-	-	88,586	-	157,516	
-	56,664	-	-	52,502	109,166	
-	-	-	-	37,614	38,769	
597,600	180,180	663,422	342,226	256,028	5,261,088	
-	26,166	-	33	1,471	63,551	
-	-	-	-	8,842	104,535	
-	-	11,904	-	69,547	88,586	
-	26,166	11,904	33	79,860	256,672	
591,000	-	651,518	-	-	3,208,405	
591,000	-	651,518	-	-	3,208,405	
-	-	-	-	37,614	38,769	
-	-	-	-	-	716,740	
6,600	-	-	-	-	6,600	
-	154,014	-	-	-	154,014	
-	-	-	-	179,132	179,132	
-	-	-	-	1,007	1,007	
-	-	-	-	-	-	
-	-	-	342,193	27,962	370,155	
-	-	-	-	(69,547)	329,594	
6,600	154,014	-	342,193	176,168	1,796,011	
\$ 597,600	\$ 180,180	\$ 663,422	\$ 342,226	\$ 256,028	\$ 5,261,088	

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2015

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Total Fund Balance - Governmental Funds (page 19)		\$ 1,796,011
Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds.		12,786,128
Internal service funds are used by management to fund and maintain the City's equipment replacement fund and medical costs provided to user departments and are included in the statement of net assets.		1,366,801
Net deferred inflows and outflows of resources related to net pension liability		(191,518)
Prepaid expenses are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources.		161,676
Accrued interest expense from the balance sheet that require current financial resources from governmental activities.		(9,331)
Other Post Employment Benefits not due and payable in the current period and therefore are not reported in the funds.		(148,312)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	\$ (5,464,609)	
Net Pension Liability	(585,379)	
Compensated Absences	(85,773)	
		(6,135,761)
Total Net Position - Governmental Activities (page 15)		<u>\$ 9,625,694</u>

CITY OF HARLAN, IOWA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
For the Year Ended June 30, 2015

	General	Debt Service
Revenue:		
Taxes	\$ 1,417,777	\$ 492,481
Special Assessments	1,411	-
Licenses and Permits	117,764	-
Intergovernmental Revenue	479,536	-
Charges for Services	459,827	-
Fines and Forfeits	14,177	-
Contributions	33,566	-
Revenue from Use of Property	74,847	-
Interest on Investments	3,808	6,496
Miscellaneous	24,795	-
Total Revenue	<u>2,627,508</u>	<u>498,977</u>
Expenditures:		
Public Safety	1,368,959	-
Public Works	757,639	-
Culture and Recreation	1,137,103	-
Community and Economic Development	232,170	-
General Government	685,752	-
Capital Projects	-	-
Debt Service	12,824	307,985
Total Expenditures	<u>4,194,447</u>	<u>307,985</u>
Excess (Deficiency) of revenues over expenditures	<u>(1,566,939)</u>	<u>190,992</u>
Other financing sources (uses):		
Issuance of Debt	446,748	615,463
Bond Premium	26,367	-
Payments on Refunded Debt	-	(2,845,000)
Proceeds from Sale of Capital Assets	4,000	-
Transfers In	1,015,883	35,988
Transfers Out	-	(101,478)
Total other financing sources (uses)	<u>1,492,998</u>	<u>(2,295,027)</u>
Net Change in Fund Balance	(73,941)	(2,104,035)
Fund balances (deficit) - beginning of year	<u>474,237</u>	<u>2,820,775</u>
Fund balances - end of year	<u>\$ 400,296</u>	<u>\$ 716,740</u>

See Accompanying Notes to Financial Statements

Special Revenue		Capital Project		Other Governmental Funds	Total Governmental Funds
Employee Benefits	Local Option Sales Tax	Urban Renewal	Industrial Park		
\$ 628,748	\$ 496,352	\$ 657,411	\$ -	\$ -	\$ 3,692,769
-	-	-	-	-	1,411
-	-	-	-	-	117,764
-	-	-	-	659,658	1,139,194
-	-	-	-	-	459,827
-	-	-	-	-	14,177
-	-	-	-	50,000	83,566
-	-	-	-	-	74,847
-	-	-	48	-	10,352
-	-	-	2,535	-	27,330
628,748	496,352	657,411	2,583	709,658	5,621,237
-	-	-	-	-	1,368,959
-	-	-	-	581,585	1,339,224
-	-	-	-	81,352	1,218,455
-	-	2,957	-	117,406	352,533
-	79,246	-	-	-	764,998
-	-	-	157,978	709,459	867,437
-	-	-	-	-	320,809
-	79,246	2,957	157,978	1,489,802	6,232,415
628,748	417,106	654,454	(155,395)	(780,144)	(611,178)
-	-	-	63,453	709,336	1,835,000
-	-	-	-	-	26,367
-	-	-	-	-	(2,845,000)
-	-	-	-	-	4,000
-	-	-	130,922	62,844	1,245,637
(630,628)	(411,000)	(645,679)	-	(24,528)	(1,813,313)
(630,628)	(411,000)	(645,679)	194,375	747,652	(1,547,309)
(1,880)	6,106	8,775	38,980	(32,492)	(2,158,487)
8,480	147,908	(8,775)	303,213	208,660	3,954,498
\$ 6,600	\$ 154,014	\$ -	\$ 342,193	\$ 176,168	\$ 1,796,011

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 22)	\$ (2,158,487)
--	----------------

Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense exceeded capital outlays in the current year as follows:

Expenditures for capital assets	\$ 581,836	
Depreciation expense	<u>(683,010)</u>	(101,174)

Governmental funds do not reflect the change in net pension liability and deferred outflows/inflows related to the pension liability	90,227
--	--------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues.	(1,025)
---	---------

The effect of the change in prepaid insurance which is not reported in the governmental funds as it is not available to provide current financial resources.	6,198
--	-------

Long-term accrual of other post employment benefits liability in the governmental funds as it does not consume current financial resources.	(37,078)
---	----------

Accrued interest expense reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.	6,879
---	-------

Amortization of bond premiums do not provide current financial resources and therefore are not reported in the governmental funds	1,758
---	-------

Governmental funds do not reflect the change in accrued compensated absences as it does not consume current financial resources. The Statement of Activities reflects the change in accrued compensated absences through expenditures.	8,966
--	-------

Internal service funds are used by management to fund and maintain the City's insurance policies provided to user departments and are included in the statement of net position. The net revenue of the internal service funds is reported with governmental activities.	(129,239)
--	-----------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The amount by which proceeds exceeded payments in the current year is as follows:

Proceeds from debt issuance	(1,835,000)	
Repayments of long-term debt	2,905,000	<u>1,070,000</u>

Change in net assets of governmental activities (page 17)	<u>\$ (1,242,975)</u>
---	-----------------------

CITY OF HARLAN, IOWA
STATEMENT OF NET POSITION
Proprietary Funds
June 30, 2015

	Business-Type Activities	Governmental Activities
	Sewer	Internal Service
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 2,389,683	\$ 358,342
Receivables (Net, where applicable, of allowance for uncollectibles)		
Accounts	147,850	-
Inventories	34,000	-
Prepaid Assets	17,812	-
Total Current Assets	2,589,345	358,342
Noncurrent Assets		
Land	22,500	-
Construction in Progress	104,875	-
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	4,334,200	1,065,117
Total Noncurrent Assets	4,461,575	1,065,117
Total Assets	7,050,920	1,423,459
LIABILITIES		
Current Liabilities		
Accounts Payable	203,170	24,085
Accrued Wages	15,625	-
Due to Other Funds	68,930	-
Accrued Interest Payable	3,598	-
Claims Incurred But Not Reported	-	32,573
Total Current Liabilities	291,323	56,658
Noncurrent Liabilities:		
Due within one year:		
General Obligation Bonds	150,000	-
Compensated Absences and Benefits	14,537	-
Due in more than one year:		
General Obligation Bonds	1,925,142	-
Total Noncurrent Liabilities	2,089,679	-
Total Liabilities	2,381,002	56,658
NET POSITION		
Net Investment in Capital Assets	2,386,433	1,065,117
Unrestricted	2,283,485	301,684
Total Net Position	\$ 4,669,918	\$ 1,366,801

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Proprietary Funds
For the Year Ended June 30, 2015

	Business-Type Activities	Governmental Activities
	Sewer	Internal Service
Operating Revenues:		
Charges for Services	\$ 976,134	\$ 343,730
Miscellaneous	9,977	286,007
Reimbursement from Employees/Insurance	-	942,121
Total Operating Revenue	<u>986,111</u>	<u>1,571,858</u>
Operating Expenses:		
Public Safety	-	48,817
Public Works	-	89,186
Culture and Recreation	-	75,773
General Government	-	1,330,959
Employee Services	378,272	-
Contract Services	58,978	-
Repairs and Maintenance	646,986	-
Utilities	80,327	-
Miscellaneous	36,335	-
Depreciation	194,415	219,490
Total Operating Expenses	<u>1,395,313</u>	<u>1,764,225</u>
Operating (Loss)	(409,202)	(192,367)
Non-Operating Income (Expense):		
Interest Income	4,886	-
Interest Expense	(43,541)	-
Total Non-Operating Income (Expense)	<u>(38,655)</u>	<u>-</u>
Income (Loss) before Contributions and Transfers	(447,857)	(192,367)
Other Financing Sources (Uses)		
Transfers In	504,548	76,000
Transfers (Out)	-	(12,872)
Total Other Financing Sources (Uses)	<u>504,548</u>	<u>63,128</u>
Change in Net Position	<u>56,691</u>	<u>(129,239)</u>
Net Position - Beginning	<u>4,613,227</u>	<u>1,496,040</u>
Net Position - Ending	<u>\$ 4,669,918</u>	<u>\$ 1,366,801</u>

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
STATEMENT OF CASH FLOWS
Proprietary Funds
For the Year Ended June 30, 2015

	Business-Type Activities	Governmental Activities
	Sewer	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 900,483	\$ 1,576,058
Cash Paid to Suppliers for Goods and Services	(623,586)	(1,529,423)
Cash Paid to Employees for Services	(375,699)	-
Net Cash Provided (Used) by Operating Activities	<u>(98,802)</u>	<u>46,635</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(104,875)	(215,428)
Principal Paid on Notes and Bonds	(140,000)	-
Interest Paid on Notes and Bonds	(50,542)	-
Net Cash (Used) for Capital and Related Financing Activities	<u>(295,417)</u>	<u>(215,428)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers to Other Funds	-	(12,873)
Transfers from Other Funds	504,548	76,000
Net Cash Provided by Non-Capital Financing Activities	<u>504,548</u>	<u>63,127</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and Dividends on Investments	<u>4,886</u>	<u>-</u>
Net Cash Provided for Investing Activities	<u>4,886</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	115,215	(105,666)
Cash and Cash Equivalents at Beginning of Year	<u>2,274,468</u>	<u>464,008</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,389,683</u>	<u>\$ 358,342</u>
Cash and Cash Equivalents:		
Unrestricted	<u>\$ 2,389,683</u>	<u>\$ 358,342</u>

(Continued)

CITY OF HARLAN, IOWA
COMBINING STATEMENT OF CASH FLOWS (Continued)
Proprietary Funds
For the Year Ended June 30, 2015

	Business-Type Activities	Governmental Activities
	Sewer	Internal Service
Reconciliation of Operating (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating (Loss)	\$ (409,202)	\$ (192,367)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	194,415	219,490
(Increase) Decrease in Assets:		
Accounts Receivable	(85,628)	4,200
Prepaid Expenses	(1,079)	-
Increase (Decrease) in Liabilities		
Accounts Payable	202,116	23,720
Accrued Wages	2,005	-
Other Accruals	(1,997)	-
Accrued Compensated Absences	568	-
Claims Incurred But Not Reported	-	(8,408)
Total Adjustments	310,400	239,002
Net Cash Provided (Used) by Operating Activities	\$ (98,802)	\$ 46,635

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
COMBINED STATEMENT OF FIDUCIARY NET POSITION
Fiduciary Funds
June 30, 2015

	<u>Agency Fund</u>		
	<u>Flex</u>	<u>Private Purpose</u>	<u>Totals</u>
	<u>Spending</u>	<u>Trust Funds</u>	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,478	\$ 38,572	\$ 40,050
Total Current Assets	<u>1,478</u>	<u>38,572</u>	<u>40,050</u>
LIABILITIES			
Current Liabilities:			
Other Payables	<u>1,478</u>	<u>-</u>	<u>1,478</u>
Total Current Liabilities	<u>1,478</u>	<u>-</u>	<u>1,478</u>
NET POSITION			
Restricted - Held In Trust	<u>-</u>	<u>38,572</u>	<u>38,572</u>
Total Net Position	<u>\$ -</u>	<u>\$ 38,572</u>	<u>\$ 38,572</u>

CITY OF HARLAN, IOWA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Fiduciary Funds
For the Year Ended June 30, 2015

	Private Purpose Trust Funds Totals
Additions	
Contributions	\$ 8,404
Miscellaneous	682
Total Additions	<u>9,086</u>
Deductions	
Public Safety	<u>1,681</u>
Total Deductions	<u>1,681</u>
Change in Net Position	7,405
Net Position Beginning of Year	<u>31,167</u>
Net Position End of Year	<u><u>\$ 38,572</u></u>

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Harlan, Iowa is a political subdivision of the State of Iowa located in Shelby County, and was incorporated in 1879, under the laws of the State of Iowa, later amended in 1974 under the Home Rule City Act. The City operates under a Mayor-Council form of government with the mayor and council members elected on a non-partisan basis. The City administers the following functions as authorized by its charter: public safety, public works, culture and recreation, community and economic development and general government services. The City also has a municipal sewer utility system, which is governed by the City Council.

The City's financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Harlan, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Harlan, Iowa (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit - The government-wide financial statements include the Harlan Municipal Utilities as a component unit. The Harlan Municipal Utilities is a legally separate organization. The board of the Harlan Municipal Utilities is appointed by the Harlan City Council. Iowa Statutes provide for circumstances whereby the City can impose their will on the Harlan Municipal Utilities. The Harlan Municipal Utilities can create a potential financial benefit or burden on the City. As a component unit, the Harlan Municipal Utilities financial statements have been presented as a discrete column in the financial statements. The information presented is for the fiscal year ended June 30, 2015. Complete financial statements are on file at Harlan Municipal Utilities.

Jointly Governed Organizations - The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following Boards and Commissions: Shelby County Emergency Management Commission, Shelby County Ambulance Commission, and the Shelby County Solid Waste Agency Board.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax, intergovernmental revenues, and other nonexchange revenues are reported separately from business type activities, which rely to a significant extent on fees and charges for services. The City's general, special revenue, debt service, and capital projects are classified as governmental activities. The City's equipment revolving internal service fund and group insurance internal service fund are also classified as a governmental-type activities.

The Statement of Net Position presents the City's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories.

Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. The City first uses restricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

The City does not allocate indirect costs. Certain expenses of the City are accounted for through the internal service fund on a cost-reimbursement basis.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year activities.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major governmental funds:

- 1) General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The sources of revenue include property taxes, charges for services, fines and fees, licenses and permits, as well as state and federal grants. The expenditures of the General Fund relate to general administration, police and fire protection, maintenance of public streets, economic development, and culture and recreation.
- 2) Debt Service Fund - Accounts for the accumulation of resources for and the payment of general obligation debt principal, interest and related costs.
- 3) Special Revenue Funds:

Employee Benefits Fund – Accounts for taxes levied for employee benefits.

Urban Renewal Fund – Accounts for property taxes received to be expended for public improvements, construction of public infrastructure, as well as, economic development opportunities.

Local Option Sales Tax – Accounts for local option sales tax received to be spent in accordance with the ballot initiative.

- 4) Capital Project Fund – Industrial Park – Accounts for construction of the new police station and economic development costs associated with the industrial park.

The City reports the following major proprietary (enterprise) funds:

The Sewer Utility is used to account for the operation and maintenance of the City's sewer system.

In addition, the City reports the following fund types:

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the city, or to other governmental units, on a cost-reimbursement basis.

The City's internal service funds are presented in the proprietary fund financial statements.

Equipment Revolving Fund – Accounts for equipment purchases for various departments of the City.

Group Insurance Fund – Accounts for funding and maintenance of the City's self-funded health insurance provided to City Employees.

Since the principal users of both funds are the City's governmental activities, the financial statements of both internal service funds are consolidated in the governmental column when presented in the government-wide financial statements. To the extent possible, the cost of these services are reported in the appropriate functional activity.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund Types – Fiduciary funds are used to report assets held in an agency or custodial capacity for others and therefore not available to support City programs. Since agency funds are custodial in nature, they do not involve the measurement of results of operations and are not incorporated into the government-wide financial statements. The City has the following private purpose trust funds:

C. Hansen / Schildberg Trust	Police Trust
Library Trust	Loree / Poynter Trust
Beebe Trust	

The City also has the following agency fund:

Flex Fund – to account for assets held by the City as an agent for individuals.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of enterprise funds are charges to customers for sales and services. Operating expenses consist of cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-recovery basis. The City's internal service funds are presented in the proprietary fund financial statements.

Fiduciary funds are used to report assets held in an agency or custodial capacity for others and, therefore, these funds are not available to support City programs.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Custodial Credit Risk – The City has no policy in place regarding custodial credit risk and deposits with financial institutions, however, deposits are insured by the state sinking fund, which provides for additional assessments against depositories to avoid loss of public funds.

Property Tax Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City Council to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the City Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City Council is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in March 2014. Any county collections on the 2014-2015 tax levy remitted to the City within 60 days subsequent to June 30, 2015, are recorded as property tax revenue.

Customer Accounts and Unbilled Usage – Accounts receivable in the Enterprise Funds includes services billed prior to June 30, 2015 and an estimate of services provided through June 30, 2015 but not billed.

Short-Term Interfund Receivables/Payables - During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent certain transactions between funds have not been paid or received as of June 30, 2015, balances of interfund amounts payable or receivable have been recorded as "due to other funds" and "due from other funds", respectively in the fund financial statements. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as interfund balances.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories of the proprietary fund types are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed.

Prepaid Assets - Payments made to vendors for services that will benefit periods beyond June 30, 2015 are recorded as prepaid items.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position and in the Proprietary Funds Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000 for general capital assets and \$25,000 for infrastructure assets and estimated useful lives in excess of one year. Depreciation expense is calculated using the straight-line method over the following useful lives:

Buildings	39 – 150 Years
Machinery & Equipment	5 – 40 Years
Infrastructure	20 – 100 Years

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon lapse of available period. Compensatory time for non-exempt and exempt employees will be earned and accrued from January 1 to July 1 and July 1 to January 1 for use in the consecutive six months following the accrual period. Time for non-exempt employees is accrued at time and a half to be paid out to employees after the six month period of use has expired. Exempt employees are required to use their compensatory time or forfeit it at the end of the six months. A liability is recorded when incurred in the government-wide and proprietary fund financial statement. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2015. The compensated absences liability attributable to the governmental activities will be paid by the General Fund and Road Use Tax Fund.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Position and the proprietary fund Statement of Net Position.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Fund Equity – Fund balances for each of the City's governmental funds (General Fund, special revenue funds, capital projects funds, and debt service funds) will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance* – amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted fund balance* – amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed Fund Balance* – amounts that can be spent only for specific purposes determined by formal action of the government's highest level of decision making authority.
- *Assigned fund balance* – amounts the City intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- *Unassigned fund balance* – amounts that are available for any purpose; these amounts can be reported only in the City's General Fund.

In addition, the Statement clarifies the definitions of the various types of governmental funds. Interpretations of certain terms within the new definition of special revenue funds may affect which activities the City can report in special revenue funds.

Fund balance amounts represent the nature of the net resources that are reported in a governmental fund. The City fund balance classifications include non-spendable resources, restricted, and non-restricted (unassigned) amounts. When the City incurs an expenditure and both restricted and unrestricted amounts are available, the City considers restricted amounts to have been spent. When the City incurs an expenditure for an unrestricted amount, committed amounts are reduced first, followed by assigned amounts and then unassigned amounts for purposes in which any of those unrestricted fund balance classifications could be used.

Interfund Transactions - Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All other interfund transactions, except interfund services provided and used transactions and reimbursements, are reported as transfers.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the Public Safety, Public Works, Culture and Recreation, Community and Economic Development, Debt Service and Capital Projects functions.

F. Deferred Outflow/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City currently has pension related deferred outflows.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflow of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from four sources: property taxes, special assessments, other taxes and pension related items. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Note 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City's deposits at June 30, 2015, were entirely covered by Federal Depository Insurance collateralized with securities or letters of credit held by the City or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. Chapter 12C provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligation of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Note 3 - RECEIVABLES

Receivables at June 30, 2015 are net of allowance for uncollectibles. The allowance for uncollectibles for the component unit was \$34,000 and the City considers all receivables to be collectible at June 30, 2015, therefore no allowance has been recorded by the primary government.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 4 - DUE FROM OTHER GOVERNMENTS

At June 30, 2015, amounts due from other governments were as follows:

Due from the Iowa Department of Revenue for Road Use Tax allocation	\$ 52,502
Due from the Iowa Department of Revenue for Local Option Sales taxes	56,664
Total Governmental Funds	<u>\$ 109,166</u>

Note 5 - INTERFUND RECEIVABLES AND PAYABLES

As of June 30, 2015 short-term interfund borrowings were as follows:

<u>Fund Due To</u>	<u>Fund Due From</u>	<u>Amount</u>
Capital Project Industrial Park	General	\$ 7,135
Capital Project Industrial Park	Urban Renewal	11,904
Capital Project Industrial Park	Nonmajor Governmental	69,547
Debt Service	Sewer	68,930
		<u>\$ 157,516</u>

The purpose of the interfund balances is to help short-term cash flow shortages of various funds.

Note 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Capital assets not being depreciated:				
Land	\$ 16,000	\$ -	\$ -	\$ 16,000
Construction in progress	268,876	339,832	341,425	267,283
Total capital assets not being depreciated	284,876	339,832	341,425	283,283
Capital assets being depreciated:				
Buildings & equipment	11,839,383	798,858	20,694	12,617,547
Infrastructure	20,161,636	-	-	20,161,636
Total capital assets being depreciated	32,001,019	798,858	20,694	32,779,183
Less accumulated depreciation for:				
Buildings & equipment	5,155,967	514,267	20,694	5,649,540
Infrastructure	13,173,448	388,233	-	13,561,681
Total accumulated depreciation	18,329,415	902,500	20,694	19,211,221
Total capital assets being depreciated, net	13,671,604	(103,642)	-	13,567,962
Governmental activities capital assets, net	<u>\$ 13,956,480</u>	<u>\$ 236,190</u>	<u>\$ 341,425</u>	<u>\$ 13,851,245</u>

Construction in progress is related to the airport improvement project.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 6 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Public Safety	\$ 21,149
Public Works, which includes the depreciation of infrastructure	472,767
Culture and Recreation	187,169
General Government	1,925
Governmental Activities Depreciation Expense by Function	<u>683,010</u>
Internal Service – Equipment Revolving Fund	219,490
Total governmental activities - depreciation expense	<u>\$ 902,500</u>

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 22,500	\$ -	\$ -	\$ 22,500
Construction in progress	-	104,875		104,875
Total capital assets not being depreciated	<u>22,500</u>	<u>104,875</u>	<u>-</u>	<u>127,375</u>
Capital assets being depreciated:				
Buildings and equipment	6,124,791	-	-	6,124,791
Infrastructure	1,778,759	-	-	1,778,759
Total capital assets being depreciated	<u>7,903,550</u>	<u>-</u>	<u>-</u>	<u>7,903,550</u>
Less: Accumulated depreciation for:				
Buildings & equipment	2,354,449	159,314	-	2,513,763
Infrastructure	1,020,486	35,101	-	1,055,587
Total accumulated depreciation	<u>3,374,935</u>	<u>194,415</u>	<u>-</u>	<u>3,569,350</u>
Total capital assets being depreciated, net	<u>4,528,615</u>	<u>(194,415)</u>	<u>-</u>	<u>4,334,200</u>
Governmental activities capital assets, net	<u>\$ 4,551,115</u>	<u>\$ (89,540)</u>	<u>\$ -</u>	<u>\$ 4,461,575</u>

Construction in Progress is related to sewer plant improvements.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 6 - CAPITAL ASSETS (Continued)

A summary of changes in capital assets for the discretely presented component unit is as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Harlan Municipal Utilities				
Discretely Presented Component Unit:				
Capital assets not being depreciated:				
Construction in Progress	\$ 586,454	\$ -	\$ 586,454	\$ -
Total capital assets not being depreciated	586,454	-	586,454	-
Capital assets being depreciated:				
Property, plant & equipment	67,239,183	1,848,776	-	69,087,959
Total capital assets being depreciated	67,239,183	1,848,776	-	69,087,959
Less: Accumulated depreciation for:				
Property, plant & equipment	32,696,749	1,662,649	-	34,359,398
Total accumulated depreciation	32,696,749	1,662,649	-	34,359,398
Total capital assets being depreciated, net	34,542,434	186,127	-	34,728,561
Governmental activities capital assets, net	\$ 35,128,888	\$ 186,127	\$ 586,454	\$ 34,728,561

Reconciliation of Net Investment in Capital Assets:

	Governmental Activities	Business-Type Activities	Component Unit
Land	\$ 16,000	\$ 22,500	\$ -
Construction in Progress	267,283	104,875	-
Capital Assets (net of accumulated depreciation)	13,567,962	4,334,200	34,728,561
Less: General Obligation Bonds Payable	5,440,000	2,075,142	-
Revenue Bonds & Capital Loan Notes	-	-	16,398,262
Net Investment in Capital Assets	\$ 8,411,245	\$ 2,386,433	\$ 18,330,299

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 7 - LONG-TERM DEBT

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and projects. General obligation bonds have been issued for both governmental and business-type activities. These bonds are direct obligations and pledge the full faith and credit of the City.

New Bond Issue

On October 9, 2014, the City issued \$1,835,000 of General Obligation Capital Loan Notes for various capital projects in the City. The rates range from 1.85% to 3.35% with annual payments beginning June 1, 2016 and continuing through June 1, 2029.

Cross-over Refunding

On May 1, 2013 the City issued \$2,815,000 of General Obligation Bonds, Series 2013 with an average interest rate of 1.75%, with annual maturities from June 2014 through June 2022. The net proceeds were used to crossover refund the 2007 General Obligation Bonds. The crossover date is May 2015. The 2007 bonds were retired in this fiscal year. The net present value of the cash flow savings was \$278,198.

General obligation bonds outstanding as of June 30, 2015 are as follows:

	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 6/30/15	Due Within One Year
Primary Government:						
Governmental Activities						
General Obligation Debt						
Corporate purpose bonds	10/09/14	06/01/29	1.85 – 3.35%	\$ 1,835,000	\$ 1,835,000	\$ 220,000
Corporate purpose bonds	06/01/11	06/01/26	1.20 - 3.80%	990,000	790,000	60,000
Corporate purpose bonds	05/01/13	06/01/22	.6 – 2.35%	2,815,000	2,815,000	215,000
Total Governmental Activities – General Obligation Debt					<u>\$ 5,440,000</u>	<u>\$ 495,000</u>
Business-Type Activities						
General Obligation Debt						
Corporate purpose bonds	06/28/12	06/01/27	2.00 – 2.50%	2,455,000	<u>\$ 2,040,000</u>	<u>\$ 150,000</u>

The balances shown on the Statement of Net Position are gross of unamortized bond premiums of \$24,609 for governmental activities and \$35,142 for business type activities.

Debt service requirements to maturity for general obligation bonds are as follows:

Years	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 495,000	\$ 111,969	\$ 150,000	\$ 43,178
2017	480,000	105,079	155,000	40,178
2018	540,000	97,904	155,000	37,078
2019	560,000	89,037	160,000	33,978
2020	375,000	79,227	160,000	30,778
2021-2025	1,955,000	282,982	875,000	103,709
2026-2029	1,035,000	57,827	385,000	14,310
Total	<u>\$ 5,440,000</u>	<u>\$ 824,025</u>	<u>\$ 2,040,000</u>	<u>\$ 303,209</u>

The City's computed legal debt limit as of June 30, 2015 is \$13,031,940 of which \$7,480,000 is committed for outstanding general obligation debt.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 7 - LONG-TERM DEBT (Continued)

Revenue Bond Covenants

Component Unit:

Bond covenants require funds to be set aside in retirement, reserve, and plant improvements accounts. During the year ended June 30, 2015, the Utility was in compliance with the revenue note provisions.

Details of revenue bonds notes and contracts payable at June 30, 2015 are as follows:

Component Unit:	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 6/30/15	Due Within One Year
Electric Fund						
Electric Revenue Bond, Series 2010A	6/1/10	10/1/24	3.0-4.25%	\$ 8,285,000	\$ 7,880,000	\$ 515,000
Electric Revenue Bond, Series 2010B	6/1/10	10/1/15	2.0-2.5%	2,260,000	475,000	70,000
Total Electric Bonds & Contracts					8,355,000	585,000
Water Fund:						
Water Revenue Bond, Series 2004	4/15/04	7/1/16	1.40-4.10%	670,000	140,000	70,000
Water State Revolving Fund	5/16/12	7/1/32	3.0%	7,035,000	6,876,000	225,000
Total Water Bonds					7,016,000	295,000
Telecommunications Fund:						
Communications Utility Revenue						
Capital Loan Notes, Series 2012	3/29/12	4/1/22	3.25%	\$ 1,649,667	1,154,767	164,967
Total Telecommunications Fund					\$16,525,767	\$ 1,044,967

Debt service requirements to maturity for revenue bonds are as follows:

Component Unit:

Year Ending June 30,	Electric Revenue Bonds & Contracts		Water Revenue Bonds		Telecommunications Revenue Capital Loan Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 585,000	\$ 300,768	\$ 295,000	\$ 207,715	\$ 164,967	\$ 37,530
2017	615,000	283,955	305,000	199,530	164,967	32,169
2018	635,000	265,205	312,000	192,480	164,967	26,807
2019	810,000	242,315	322,000	183,120	164,967	21,446
2020	840,000	213,830	333,000	173,460	164,967	16,084
2021-2025	4,870,000	526,097	1,833,000	710,820	329,932	16,084
2026-2030	-	-	2,151,000	417,480	-	-
2031-2033	-	-	1,465,000	88,830	-	-
Total	\$ 8,355,000	\$ 1,832,170	\$7,016,000	\$2,173,435	\$ 1,154,767	\$ 105,120

The balance shown on the statement of net position for the component unit is net of unamortized bond discounts of \$127,505.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 7 - LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities

Long-Term liability activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 6,510,000	\$ 1,835,000	\$ 2,905,000	\$ 5,440,000	\$ 495,000
Other Post Employee Benefits	111,234	37,078	-	148,312	-
Net Position Liability	1,018,530	-	433,151	585,379	-
Compensated Absences	94,739	85,773	94,739	85,773	85,773
Long-Term Liabilities	<u>\$ 7,734,503</u>	<u>\$ 1,957,851</u>	<u>\$ 3,432,890</u>	<u>\$ 6,259,464</u>	<u>\$ 580,773</u>
Business-Type Activities:					
General Obligation Bonds	\$ 2,180,000	\$ -	\$ 140,000	\$ 2,040,000	\$ 150,000
Compensated Absences	13,969	14,537	13,969	14,537	14,537
Other Post Employment Benefits	<u>\$ 2,193,969</u>	<u>\$ 14,537</u>	<u>\$ 153,969</u>	<u>\$ 2,054,537</u>	<u>\$ 164,537</u>
Component Unit:					
Electric Revenue Bonds	\$ 9,455,000	\$ -	\$ 1,100,000	\$ 8,355,000	\$ 585,000
Water Revenue Bonds	7,094,322	-	78,322	7,016,000	295,000
Capital Loan Notes	1,319,734	-	164,967	1,154,767	164,967
Net Position Liability	1,267,380	-	260,588	1,006,792	-
Long-Term Liabilities	<u>\$19,136,436</u>	<u>\$ -</u>	<u>\$ 1,603,877</u>	<u>\$ 17,532,559</u>	<u>\$ 1,044,967</u>

Note 8 - TRANSFERS

The following is a summary of transfers between funds:

	General	Debt Service	Industrial Park	Non Major Governmental	Internal Service Fund	Sewer	Total Transfers Out
Local Option Sales Tax	\$ 335,000	\$ -	\$ -	\$ -	\$ 76,000	\$ -	\$ 411,000
Employee Benefit	630,628	-	-	-	-	-	630,628
Nonmajor Governmental	3,037	-	21,491	-	-	-	24,528
Urban Renewal	47,218	35,988	109,431	62,844	-	390,198	645,679
Internal Service	-	-	-	-	-	12,872	12,872
Debt Service	-	-	-	-	-	101,478	101,478
Total Transfers In	<u>\$1,015,883</u>	<u>\$ 35,988</u>	<u>\$ 130,922</u>	<u>\$ 62,844</u>	<u>\$ 76,000</u>	<u>\$ 504,548</u>	<u>\$1,826,185</u>

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 9- PENSION AND RETIREMENT

Plan description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55.

The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary).

Protection occupation members may retire at normal retirement age which is generally at age 55. The formula used to calculate a protection occupation members' monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 9- PENSION AND RETIREMENT (Continued)

Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30 year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent. Protective occupation members contributed 6.76 percent of pay and the City contributed 10.14 percent for a total rate of 16.80 percent.

The City's total contributions to IPERS for the year ended June 30, 2015 were \$154,925 and for the component unit total contributions were \$153,007.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City reported a liability of \$585,379 for its proportionate share of the net pension liability, and the component unit reported a \$1,006,792 net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's collective proportion was 0.177392 percent and 0.25382 percent for the component unit, which was an increase of .0012278 percent from its proportion measured as of June 30, 2013. The component unit showed an increase of .0007292 percent from 2013.

For the year ended June 30, 2015, the City and component unit recognized pension expense of \$64,698 and \$73,960, respectively. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	City's Share	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,620	\$ 10,431
Changes of assumptions	31,213	249
Net difference between projected and actual earnings on pension plan investments	-	381,226
Changes in proportion and differences between City contributions and proportionate share of contributions	6,630	-
City contribution subsequent to the measurement date	154,925	-
Total	<u>\$ 200,388</u>	<u>\$ 391,906</u>

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 9- PENSION AND RETIREMENT (Continued)

	Component Unit	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,942	\$ -
Changes of assumptions	44,433	-
Net difference between projected and actual earnings on pension plan investments	-	383,961
Changes in proportion and differences between City contributions and proportionate share of contributions	(5,964)	-
Utility contributions subsequent to the measurement date	153,007	-
Total	\$ 202,418	\$ 383,961

\$154,925 and \$153,007 reported as deferred outflows of resources related to pensions resulting from the City and component unit contributions, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Total	
	City	Component Unit
2016	\$ (87,354)	\$ (84,446)
2017	(87,354)	(84,446)
2018	(87,354)	(84,446)
2019	(87,354)	(84,447)
2020	2,973	3,233
	<u>\$ (346,443)</u>	<u>\$ (334,550)</u>

There were no non-employer contributing entities at IPERS.

Actuarial assumptions -- The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary Increases (effective June 30, 2014)	4.00 to 17.00 percent average, including inflation. Rates vary by membership group.
Long-term Investment Rate of Return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 9- PENSION AND RETIREMENT (Continued)

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	2.3%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount rate – The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate.

	1% Decrease 6.5%	Discount Rate 7.5%	1% Increase 8.5%
Proportionate share of the net Pension liability			
City	\$ 1,446,935	\$ 585,379	\$ (141,515)
Component Unit	1,902,305	1,006,792	250,886

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 10- SPLIT FUNDING HEALTH INSURANCE PLAN

The City of Harlan, along with its component unit, Harlan Municipal Utilities, has established a partially self-funded health insurance program. The plan is funded by City contributions and is administered through a service agreement with Employee Benefit Systems. The agreement is subject to automatic renewal provisions. The City assumes liability for deductible amounts of \$2,000 to \$4,000 depending on the coverage selected by the employee.

Monthly payments of service fees, plan contributions, and claims for the City's split funding health insurance are recorded as expenditures in the City's Internal Service – Group Insurance Fund.

Claims payable and estimated claims incurred but not reported are recorded as a liability in the City's Internal Service – Group Insurance Fund.

	Prior Year	Current Year
Unpaid claims, beginning of fiscal year	\$ 21,025	\$ 40,981
Current year claims and changes in estimates	443,837	368,793
Claim payments	(423,881)	(377,201)
Unpaid claims, end of fiscal year	<u>\$ 40,981</u>	<u>\$ 32,573</u>

Note 11 - DEFICIT FUND EQUITY

The City has two funds with deficit equity balances at June 30, 2015. The City intends to finance these deficits from various resources including grant revenue and fund transfers.

The individual fund deficits were as follows:

Nonmajor – Upper Story Facade.....	\$ 14,697
Nonmajor – GH Christiansen	54,850

Note 12- RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. All of these risks, with the exception of vision and dental care, are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

Note 13- COMMITMENTS

In fiscal year 2015, the City entered into two contracts related to two sewer projects there is approximately \$1,284,000 remaining on the two contracts at June 30, 2015.

Note 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical, prescription drug, and dental benefits for retirees and their spouses. There are 33 active and 2 retired members in the plan. Covered individuals include any eligible individual employed by the

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) – (Continued)

City. Individuals retiring from service with the City are eligible under the Municipal Fire and Police Retirement System of Iowa (MFPRS) or Iowa Public Employees Retirement System (IPERS). Retiring individual must have a minimum of four years of experience with the City as well as be at least 55 years of age. Coverage ceases upon reaching age 65 or the individual becomes eligible for Medicare.

The medical, prescription drug, and dental coverage is provided through a self-insured plan with Employee Benefit Systems. Retirees under age 65 pay the full amount of the premium for the medical/dental/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. Monthly medical premiums for active members are \$562 for single coverage and \$1,252 for family coverage. Monthly dental premiums for active members are \$26 for single coverage and \$55 for family coverage. The same monthly premiums apply to retirees.

Annual OPEB Cost and Net OPEB Obligation – The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2015, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$ 47,490
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
	<hr/>
Annual OPEB cost	47,490
Contributions made	(10,412)
	<hr/>
Increase in net OPEB obligation	37,078
Net OPEB obligation beginning of year	111,234
	<hr/>
Net OPEB obligation end of year	\$ 148,312

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) – (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 47,490	21.9%	\$ 37,078
June 30, 2013	\$ 47,490	21.9%	\$ 74,156
June 30, 2014	\$ 47,490	21.9%	\$ 111,234
June 30, 2015	\$ 47,490	21.9%	\$ 148,312

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$317,393, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$317,393. The covered payroll (annual payroll of active employees covered by the plan) was \$1,670,000 and the ratio of the UAAL to covered payroll was 22.0%. As of June 30, 2015, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the alternative measurement method was used. The ultimate medical trend rate is 8.0%. The medical trend rate is reduced 0.5% each year until reaching the 5.0% ultimate rate.

Mortality rates are from the 2004 United States Life Tables. Annual termination probabilities were developed from specific aged-based data from GASB Statement 45. Annual retirement probabilities were developed based on the historical average age for the covered group.

Projected claim costs of the medical plan are \$11,676 per year for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2015

Note 15 - FORGIVABLE LOANS

The City offers forgivable loans to new businesses in Harlan. The purpose of the loan is to stimulate the local economy and encourage local businesses to create and maintain new jobs within Harlan. If the business does not maintain the required number of full-time equivalent positions as stipulated in the agreement, the City penalizes the business until the number of jobs returns to the required minimum in the agreement. If the business meets the requirements throughout, the loan is forgiven at the end of the contract period.

There were no loans outstanding at June 30, 2015.

Note 16 - ACCOUNTING CHANGE / RESTATEMENT

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position for governmental and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Governmental Activities	Component Unit
Net Position June 30, 2014, as previously reported	\$ 11,762,160	\$ 34,005,418
Net Pension Liability at June 30, 2014	(1,018,530)	(1,415,722)
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	151,406	148,342
Net Position June 30, 2014, as restated	\$ 10,895,036	\$ 32,738,038

Note 17 - SUBSEQUENT EVENTS

In fiscal year 2016, the City received approval for a federal FAA grant for airport renovations totaling approximately \$1,900,000. In September 2015, the City authorized the issuance of \$1,580,000 of General Obligation Capital Loan Notes for various essential corporate purposes.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARLAN, IOWA

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN
BALANCES - BUDGET AND ACTUAL (CASH BASIS) -**

Governmental Funds and Proprietary Funds (Including Component Unit)

For the Year Ended June 30, 2015

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Taxes	\$ 2,543,937	\$ -
Special Assessments	1,411	-
Tax Increment Financing	645,507	-
Other City Taxes	641,625	-
Licenses and Permits	19,269	-
Intergovernmental Revenue	1,102,076	-
Charges for Services	466,626	15,673,225
Revenue from Use of Property	74,947	-
Interest on Investments	10,352	66,465
Miscellaneous	358,059	22,168
Total Revenue	<u>5,863,809</u>	<u>15,761,858</u>
Disbursements:		
Public Safety	1,361,631	-
Public Works	1,392,917	-
Culture and Recreation	1,128,567	-
Community and Economic Development	320,195	-
General Government	723,038	-
Capital Projects	1,084,326	-
Debt Service	3,152,985	-
Business-Type Activities		15,068,983
Total Expenditures	<u>9,163,659</u>	<u>15,068,983</u>
Excess (deficiency) of receipts over disbursements	<u>(3,299,850)</u>	<u>692,875</u>
Other financing sources (uses):		
Proceeds from Debt Issuance	1,848,543	-
Proceeds of Capital Asset Sales	4,000	-
Transfers In	1,245,637	491,676
Transfers Out	(1,737,313)	-
Total other financing sources (uses)	<u>1,360,867</u>	<u>491,676</u>
Net Change in Balances	(1,938,983)	1,184,551
Balances - beginning of year	<u>3,633,520</u>	<u>17,993,272</u>
Balances - end of year	<u>\$ 1,694,537</u>	<u>\$ 19,177,823</u>

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
\$ 2,543,937	\$ 2,452,471	\$ 2,452,471	\$ 91,466
1,411	500	500	911
645,507	651,518	651,518	(6,011)
641,625	575,743	575,743	65,882
19,269	72,700	72,700	(53,431)
1,102,076	1,146,975	1,146,975	(44,899)
16,139,851	15,962,933	15,962,933	176,918
74,947	126,940	126,940	(51,993)
76,817		-	76,817
380,227	50,435	50,435	329,792
<u>21,625,667</u>	<u>21,040,215</u>	<u>21,040,215</u>	<u>585,452</u>
1,361,631	1,296,710	1,296,710	(64,921)
1,392,917	1,095,200	1,245,200	(147,717)
1,128,567	887,892	887,892	(240,675)
320,195	133,602	133,602	(186,593)
723,038	827,878	827,878	104,840
1,084,326	651,000	651,000	(433,326)
3,152,985	604,740	604,740	(2,548,245)
15,068,983	14,838,704	16,420,275	1,351,292
<u>24,232,642</u>	<u>20,335,726</u>	<u>22,067,297</u>	<u>(2,165,345)</u>
<u>(2,606,975)</u>	<u>704,489</u>	<u>(1,027,082)</u>	<u>(1,579,893)</u>
1,848,543	-	-	1,848,543
4,000	-	-	4,000
1,737,313	1,942,009	1,942,009	(204,696)
<u>(1,737,313)</u>	<u>(1,942,009)</u>	<u>(1,942,009)</u>	<u>204,696</u>
<u>1,852,543</u>	<u>-</u>	<u>-</u>	<u>1,852,543</u>
(754,432)	704,489	(1,027,082)	272,650
<u>21,626,792</u>	<u>21,626,792</u>	<u>21,626,792</u>	<u>-</u>
<u>\$ 20,872,360</u>	<u>\$ 22,331,281</u>	<u>\$ 20,599,710</u>	<u>\$ 272,650</u>

CITY OF HARLAN, IOWA
BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
For the Year Ended June 30, 2015

	Cash Basis	Accrual Adjustments	Modified/Full Accrual Basis
Revenue:			
Taxes	\$ 3,189,444	\$ 503,325	\$ 3,692,769
Special Assessments	1,411	-	1,411
Other City Taxes	641,625	(641,625)	-
Licenses and Permits	19,269	98,495	117,764
Intergovernmental Revenue	1,102,076	37,118	1,139,194
Charges for Services	16,139,851	181,644	16,321,495
Fines and Forfeits	-	14,177	14,177
Contributions	-	83,566	83,566
Revenue from Use of Property	74,947	(100)	74,847
Interest on Investments	76,817	-	76,817
Miscellaneous	380,227	(352,897)	27,330
Total Revenue	<u>21,625,667</u>	<u>(76,297)</u>	<u>21,549,370</u>
Expenditures/Expenses:			
Public Safety	1,361,631	7,328	1,368,959
Public Works	1,392,917	(53,693)	1,339,224
Culture and Recreation	1,128,567	89,888	1,218,455
Community and Economic Development	320,195	32,338	352,533
General Government	723,038	41,960	764,998
Capital Projects	1,084,326	(216,889)	867,437
Debt Service	3,152,985	(2,845,000)	307,985
Business-Type Activities	15,068,983	(464,232)	14,604,751
Total Expenditures/Expenses	<u>24,232,642</u>	<u>(3,408,300)</u>	<u>20,824,342</u>
Excess (Deficiency) of Revenues Over Expenditures/Expenses	<u>(2,606,975)</u>	<u>3,332,003</u>	<u>725,028</u>
Other financing sources (uses):			
Proceeds from Debt Issuance	1,848,543	-	1,848,543
Payments on Refunded Bonds	(2,845,000)	-	(2,845,000)
Proceeds of Capital Asset Sales	4,000	-	4,000
Transfers In	1,737,313	12,872	1,750,185
Transfers Out	(1,737,313)	(76,000)	(1,813,313)
Total other financing sources (uses)	<u>(992,457)</u>	<u>(63,128)</u>	<u>(1,055,585)</u>
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures/Expenses and Other (Uses)	<u>(3,599,432)</u>	<u>3,268,875</u>	<u>(330,557)</u>
Fund Balance/Retained Earnings - beginning of year	21,626,792	20,946,351	42,573,143
Prior Period Adjustment	-	(1,267,380)	(1,267,380)
Fund Balance/Retained Earnings - beginning of year, as Restated	<u>21,626,792</u>	<u>19,678,971</u>	<u>41,305,763</u>
Fund Balance/Retained Earnings - end of year	<u>\$ 18,027,360</u>	<u>\$ 22,947,846</u>	<u>\$ 40,975,206</u>

CITY OF HARLAN, IOWA
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2015

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Funds, and appropriates the amount deemed necessary for each of the different City offices and departments. The budgets may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. During the year ended June 30, 2015, one budget amendment was adopted increasing budgeted disbursements by \$1,731,571.

Formal and legal budgetary control is based upon 9 major classes of expenditures known as functions, not by fund. These 9 functions are: public safety, public works, community and economic development, health and social services, culture and recreation, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department.

During the fiscal year ended June 30, 2015, disbursements exceeded the amounts budgeted in the Public Safety, Public Works, Culture and Recreation, Community and Economic Development, Debt Service and Capital Projects functions.

CITY OF HARLAN, IOWA
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM LAST FISCAL YEAR*
(IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015

	2015	
	City	Component Unit
Entity's proportion of the net pension liability	.0147603%	.0253862%
Entity's proportionate share of the net pension liability	\$ 585	\$ 1,007
Entity's covered-employee payroll	\$ 1,670	\$ 4,457
Entity's proportionate share of the net pension liability as a percentage of its covered employee payroll	35.02%	58.79%
Plan fiduciary net pension as a percentage of the total pension liability	87.61%	87.61%

*The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Entity will present information for those years for which information is available.

**CITY OF HARLAN, IOWA
SCHEDULE OF THE ENTITY CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST TEN YEARS (IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

City	2015	2014	2013	2012	2011
Statutorily required contribution	\$ 155	\$ 159	\$ 148	\$ 138	\$ 127
Contributions in relation to the statutorily required contribution	(155)	(159)	(148)	(138)	(127)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Entity's covered employee payroll	\$ 1,670	\$ 1,713	\$ 1,610	\$ 1,555	\$ 1,540
Contributions as a percentage of covered-employee payroll	9.28%	9.28%	9.19%	8.87%	8.24%

City	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 110	\$ 104	\$ 97	\$ 93	\$ 91
Contributions in relation to the statutorily required contribution	(110)	(104)	(97)	(93)	(91)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Entity's covered employee payroll	\$ 1,500	\$ 1,445	\$ 1,409	\$ 1,384	\$ 1,347
Contributions as a percentage of covered-employee payroll	7.33%	7.20%	6.88%	6.72%	6.7%

Component Unit	2015	2014	2013	2012	2011
Statutorily required contribution	\$ 153	\$ 148	\$ 140	\$ 125	\$ 106
Contributions in relation to the statutorily required contribution	(153)	(148)	(140)	(125)	(106)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered employee payroll	\$ 1,713	\$ 1,661	\$ 1,680	\$ 1,546	\$ 1,525
Contributions as a percentage of covered-employee payroll	8.93%	8.91%	8.33%	8.09%	6.95%

Component Unit	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 96	\$ 88	\$ 86	\$ 82	\$ 81
Contributions in relation to the statutorily required contribution	(96)	(88)	(86)	(82)	(81)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered employee payroll	\$ 1,453	\$ 1,443	\$ 1,414	\$ 1,421	\$ 1,364
Contributions as a percentage of covered-employee payroll	6.61%	6.10%	6.08%	5.77%	5.94%

See accompanying independent auditors' report

CITY OF HARLAN, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015

Changes of Benefit Terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of Assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

CITY OF HARLAN, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

CITY OF HARLAN, IOWA
Schedule of Funding Progress for the
Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Required Supplementary Information				UAAL as a Percentage of Covered Payroll ((b-a)/c)
		Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Approximate Covered Payroll (c)	
July 1, 2012	-	\$ 317,393	\$ 317,393	0.00%	\$1,555,000	20.4%
July 1, 2012	-	\$ 317,393	\$ 317,393	0.00%	\$1,610,000	19.7%
July 1, 2012	-	\$ 317,393	\$ 317,393	0.00%	\$1,713,000	18.5%
July 1, 2012	-	\$ 317,393	\$ 317,393	0.00%	\$1,670,000	19.0%

See Note 14 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HARLAN, IOWA
COMBINING BALANCE SHEET
Governmental Nonmajor Funds
June 30, 2015

	Special Revenue		Capital Projects	
	Road Use Tax	Upper Story Façade	Library Building	
Assets				
Cash and Cash Equivalents	\$ 136,943	\$ -	\$ -	-
Receivables (Net, where applicable, of allowance for uncollectibles)				
Due from Other Governmental Agencies	52,502	-	-	-
Inventories	37,614	-	-	-
Total Assets	227,059	-	-	-
Liabilities				
Liabilities				
Accounts Payable	1,471	-	-	-
Accrued Wages	8,842	-	-	-
Due to Other Funds	-	14,697	-	-
Total Liabilities	10,313	14,697	-	-
Fund Balances				
Non-Spendable:				
Inventories	37,614	-	-	-
Restricted:				
Streets	179,132	-	-	-
Housing Grant	-	-	-	-
Assigned:				
Capital Projects	-	-	-	-
Unassigned	-	(14,697)	-	-
Total Fund Balances	216,746	(14,697)	-	-
Total Liabilities and Fund Balance	\$ 227,059	\$ -	\$ -	-

Capital Projects									
College Park Plaza		Activity Center		Street Overlay		GH Christiansen Subdivision		Airport Improvement	
\$	-	\$	27,962	\$	-	\$	-	\$	-
	-		-		-		-		-
	-		-		-		-		-
	-		27,962		-		-		-
	-		-		-		-		-
	-		-		-		-		-
	-		-		-		54,850		-
	-		-		-		54,850		-
	-		-		-		-		-
	-		-		-		-		-
	-		-		-		-		-
	-		27,962		-		-		-
	-		-		-		(54,850)		-
	-		27,962		-		(54,850)		-
\$	-	\$	27,962	\$	-	\$	-	\$	-

CITY OF HARLAN, IOWA
COMBINING BALANCE SHEET
Governmental Nonmajor Funds
June 30, 2015

	Capital Projects		Total Governmental Nonmajor Funds
	Pioneer Park	Housing Rehab 1998	
Assets			
Cash and Cash Equivalents	\$ -	\$ 1,007	\$ 165,912
Receivables (Net, where applicable, of allowance for uncollectibles)			
Due from Other Governmental Agencies	-	-	52,502
Inventories	-	-	37,614
Total Assets	-	1,007	256,028
Liabilities:			
Accounts Payable	-	-	1,471
Accrued Wages	-	-	8,842
Due to Other Funds	-	-	69,547
Total Liabilities	-	-	79,860
Fund Balances			
Non-Spendable:			
Inventories	-	-	37,614
Restricted:			
Streets	-	-	179,132
Housing Grant	-	1,007	1,007
Assigned:			
Capital Projects	-	-	27,962
Unassigned	-	-	(69,547)
Total Fund Balances	-	1,007	176,168
Total Liabilities and Fund Balance	\$ -	\$ 1,007	\$ 256,028

CITY OF HARLAN, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Governmental Nonmajor Funds
For the Year Ended June 30, 2015

	Special Revenue		Capital Projects
	Road Use Tax	Upper Story Façade	Library Building
Revenue:			
Intergovernmental Revenue	\$ 544,042	\$ -	\$ -
Contributions	-	-	-
Total Revenue	544,042	-	-
Expenditures:			
Public Works	581,585	-	-
Culture and Recreation	-	-	-
Community and Economic Development	-	77,541	7,661
Capital Projects	-	-	-
Total Expenditures	581,585	77,541	7,661
Excess (deficiency) of revenues over expenditures	(37,543)	(77,541)	(7,661)
Other financing sources (uses):			
Issuance of Debt	-	-	-
Transfers In	-	62,844	-
Transfers Out	-	-	-
Total other financing sources (uses)	-	62,844	-
Net Change in Fund Balance	(37,543)	(14,697)	(7,661)
Fund balances (deficits) -beginning of year	254,289	-	7,661
Fund balances (deficits) - end of year	\$ 216,746	\$ (14,697)	\$ -

Capital Projects				
College Park Plaza	Activity Center	Street Overlay	GH Christiansen Subdivision	Airport Improvement
\$ -	\$ -	\$ -	\$ -	\$ 65,501
-	50,000	-	-	-
-	50,000	-	-	65,501
-	-	-	-	-
-	81,352	-	-	-
-	-	-	-	-
-	-	383,418	-	28,602
-	81,352	383,418	-	28,602
-	(31,352)	(383,418)	-	36,899
-	-	383,418	-	12,479
-	-	-	-	-
(21,491)	-	(3,037)	-	-
(21,491)	-	380,381	-	12,479
(21,491)	(31,352)	(3,037)	-	49,378
21,491	59,314	3,037	(54,850)	(49,378)
\$ -	\$ 27,962	\$ -	\$ (54,850)	\$ -

CITY OF HARLAN, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Governmental Nonmajor Funds
For the Year Ended June 30, 2015

	Capital Projects		Total
	Pioneer Park	Housing Rehab 1998	Governmental Nonmajor Funds
Revenue:			
Intergovernmental Revenue	\$ -	\$ 50,115	\$ 659,658
Contributions	-	-	50,000
Total Revenue	-	50,115	709,658
Expenditures:			
Public Works	-	-	581,585
Culture and Recreation	-	-	81,352
Community and Economic Development	-	32,204	117,406
Capital Projects	297,439	-	709,459
Total Expenditures	297,439	32,204	1,489,802
Excess (deficiency) of revenues over expenditures	(297,439)	17,911	(780,144)
Other financing sources (uses):			
Issuance of Debt	313,439	-	709,336
Transfers In	-	-	62,844
Transfers Out	-	-	(24,528)
Total other financing sources (uses)	313,439	-	747,652
Net Change in Fund Balance	16,000	17,911	(32,492)
Fund balances (deficits) -beginning of year	(16,000)	(16,904)	208,660
Fund balances (deficits) - end of year	\$ -	\$ 1,007	\$ 176,168

CITY OF HARLAN, IOWA
STATEMENT OF NET POSITION
COMBINING STATEMENT OF NET POSITION
Internal Service Funds
June 30, 2015

	Equipment Revolving	Group Insurance	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 313,009	\$ 45,333	\$ 358,342
Total Current Assets	<u>313,009</u>	<u>45,333</u>	<u>358,342</u>
Noncurrent Assets			
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	1,065,117	-	1,065,117
Total Noncurrent Assets	<u>1,065,117</u>	<u>-</u>	<u>1,065,117</u>
Total Assets	<u>1,378,126</u>	<u>45,333</u>	<u>1,423,459</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	24,085	-	24,085
Claims Incurred But Not Reported	-	32,573	32,573
Total Current Liabilities	<u>24,085</u>	<u>32,573</u>	<u>56,658</u>
Total Liabilities	<u>24,085</u>	<u>32,573</u>	<u>56,658</u>
NET POSITION			
Net Investment in Capital Assets	1,065,117	-	1,065,117
Unrestricted	288,924	12,760	301,684
Total Net Position	<u>\$ 1,354,041</u>	<u>\$ 12,760</u>	<u>\$1,366,801</u>

CITY OF HARLAN, IOWA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Internal Service Funds
For the Year Ended June 30, 2015

	Equipment Revolving	Group Insurance	Total
Operating Revenues:			
Charges for Services	\$ 343,730	\$ -	\$ 343,730
Miscellaneous	286,007	-	286,007
Reimbursement from Employees/Insurance	-	942,121	942,121
Total Operating Revenue	<u>629,737</u>	<u>942,121</u>	<u>1,571,858</u>
Operating Expenses:			
Public Safety	48,817	-	48,817
Public Works	89,186	-	89,186
Culture and Recreation	75,773	-	75,773
General Government	436,473	894,486	1,330,959
Depreciation	219,490	-	219,490
Total Operating Expenses	<u>869,739</u>	<u>894,486</u>	<u>1,764,225</u>
Operating Income (Loss)	<u>(240,002)</u>	<u>47,635</u>	<u>(192,367)</u>
Other Financing Sources			
Transfers In	76,000	-	76,000
Transfers (Out)	(12,872)	-	(12,872)
Total Other Financing Sources	<u>63,128</u>	<u>-</u>	<u>63,128</u>
Change in Net Position	<u>(176,874)</u>	<u>47,635</u>	<u>(129,239)</u>
Net Position (Deficit)- Beginning	<u>1,530,915</u>	<u>(34,875)</u>	<u>1,496,040</u>
Net Position - Ending	<u>\$ 1,354,041</u>	<u>\$ 12,760</u>	<u>\$ 1,366,801</u>

CITY OF HARLAN, IOWA
COMBINING STATEMENT OF CASH FLOWS
Internal Service Funds
For the Year Ended June 30, 2015

	Equipment Revolving	Group Insurance	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 633,937	\$ 942,121	\$ 1,576,058
Cash Paid to Suppliers for Goods and Services	(626,529)	(902,894)	(1,529,423)
Net Cash Provided by Operating Activities	<u>7,408</u>	<u>39,227</u>	<u>46,635</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and Construction of Capital Assets	(215,428)	-	(215,428)
Net Cash (Used) for Capital and Related Financing Activities	<u>(215,428)</u>	<u>-</u>	<u>(215,428)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers to Other Funds	(12,873)	-	(12,873)
Transfers from Other Funds	76,000	-	76,000
Net Cash Provide by Non-Capital Financing Activities	<u>63,127</u>	<u>-</u>	<u>63,127</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(144,893)	39,227	(105,666)
Cash and Cash Equivalents at Beginning of Year	<u>457,902</u>	<u>6,106</u>	<u>464,008</u>
Cash and Cash Equivalents at End of Year	<u><u>313,009</u></u>	<u><u>45,333</u></u>	<u><u>358,342</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	<u>(240,002)</u>	<u>47,635</u>	<u>(192,367)</u>
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	219,490	-	219,490
(Increase) Decrease in Assets:			
Accounts Receivable	4,200	-	4,200
Increase (Decrease) in Liabilities			
Accounts Payable	23,720		23,720
Claims Incurred But Not Reported	-	(8,408)	(8,408)
Total Adjustments	<u>247,410</u>	<u>(8,408)</u>	<u>239,002</u>
Net Cash Provided by Operating Activities	<u><u>\$ 7,408</u></u>	<u><u>\$ 39,227</u></u>	<u><u>\$ 46,635</u></u>

CITY OF HARLAN, IOWA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
Fiduciary Funds
June 30, 2015

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
FLEX SPENDING				
ASSETS				
Cash and Cash Equivalents	\$ 261	\$ 9,076	\$ 7,859	\$ 1,478
Total Assets	261	9,076	7,859	1,478
LIABILITIES				
Other Payables	261	9,076	7,859	1,478
Total Liabilities	\$ 261	\$ 9,076	\$ 7,859	\$ 1,478
NET ASSETS				
Unrestricted	-	-	-	-
Total Net Assets	\$ -	\$ -	\$ -	\$ -

CITY OF HARLAN, IOWA
COMBINING STATEMENT OF FIDUCIARY NET POSITION
Fiduciary Funds
June 30, 2015

	Private Purpose Trust Funds					
	C Hansen/ Schildberg	Library	Beebe	Police	Loree/ Poynter	Totals
ASSETS						
Cash and Cash Equivalents	\$ 271	\$ 17,480	\$ 12,995	\$ 6,143	\$ 1,683	\$ 38,572
Total Assets	271	17,480	12,995	6,143	1,683	38,572
LIABILITIES						
Total Liabilities	-	-	-	-	-	-
NET POSITION						
Restricted - Held in Trust	271	17,480	12,995	6,143	1,683	38,572
Total Net Position	\$ 271	\$ 17,480	\$ 12,995	\$ 6,143	\$ 1,683	\$ 38,572

CITY OF HARLAN, IOWA
COMBINING STATEMENT OF CHANGES IN NET POSITION
Fiduciary Funds
For the Year Ended June 30, 2015

	Private Purpose Trust Funds					Totals
	C Hansen/ Schildberg	Library	Beebe	Police	Loree/ Poynter	
Additions						
Contributions	\$ -	\$ 8,404	\$ -	\$ -	\$ -	\$ 8,404
Miscellaneous				682		682
Total Additions	-	8,404	-	682	-	9,086
Deductions						
Public Safety	-	-	-	1,681	-	1,681
Total Deductions	-	-	-	1,681	-	1,681
Changes in Net Position	-	8,404	-	(999)	-	7,405
Net Position Beginning of Year	271	9,076	12,995	7,142	1,683	31,167
Net Position End of Year	\$ 271	\$ 17,480	\$ 12,995	\$ 6,143	\$ 1,683	\$ 38,572



21 1st Avenue NW
P.O. Box 1010
Le Mars, IA 51031
Phone (712) 546-7801
Fax (712) 546-6543
www.williamscpas.com

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Members of the City Council
City of Harlan, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Harlan, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Harlan, Iowa's basic financial statements and have issued our report thereon dated November 17, 2015. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Harlan Municipal Utilities, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting:

In planning and performing our audit of the financial statements, we considered the City of Harlan, Iowa's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Harlan, Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Harlan, Iowa's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detects and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

City of Harlan, Iowa's Response to Findings

City of Harlan, Iowa's response to the findings identified in our audit is described in the accompanying schedule of findings. The City of Harlan, Iowa's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit.

If you have any questions concerning the above matters, we would be pleased to discuss them with you at your convenience.

William & Lapang, P.C.

Certified Public Accountants

Le Mars, Iowa
November 17, 2015

CITY OF HARLAN, IOWA
Schedule of Findings
For the Year Ended June 30, 2015

Part I: Summary of the Independent Auditors' Results

- (a) Unmodified opinions were issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were noted.

Material Weakness:

II-A-15 Financial Reporting

Condition and Criteria - The auditors were required to propose and have management post adjusting journal entries to the fund financial statements in order for the financial statements to conform with U.S. generally accepted accounting principles. Management is responsible for the preparation of financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Effect – The financial statements provided by management are not presented entirely in accordance with U.S. generally accepted accounting principles.

Cause – With a limited number of personnel and current staff workload, the time constraints and staff expertise do not allow for all required year end U.S. GAAP adjusting journal entries to be posted..

Recommendation – We recommend that the City train additional business office staff on U.S. GAAP and government accounting standards to help reduce the amount of adjusting journal entries and increase their knowledge of the required reporting standards.

Views of Responsible Officials – City management feels that hiring additional personnel to implement the additional U.S. GAAP adjusting journal entries would not be cost-effective. However, management has will continue to monitor this process on a regular basis.

Part III: Other Findings Related to Statutory Reporting:

- III-A-15 - Certified Budget – Disbursements during the year ended June 30, 2015, exceeded the amounts budgeted in the Public Safety, Public Works, Culture and Recreation, Community and Economic Development, Debt Service and Capital Projects functions.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

CITY OF HARLAN, IOWA
Schedule of Findings
For the Year Ended June 30, 2015

Part III: Other Findings Related to Statutory Reporting (Continued):

III-B-15 - Questionable Expenditures - We noted no questionable expenditures during our audit.

III-C-15 - Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

III-D-15 - Business Transactions - Business transactions between the City and City officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction/Description</u>	
Jan Christensen - Council Member	Owner Jay's Family Eyecare	
	Annual Expenditures	\$ 3,359
Sharon Kroger - Council Member	Spouse Owns Kroger & Sons Hauling	
	Landfill Hauling Charges	3,910

(1) These transactions may represent a conflict of interest and the City should contact legal council for determination as per Chapter 331.342 (j) of the Code of Iowa. Per City management it was noted that the City's board did approve the transactions.

III-E-15 - Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. However, we recommend that the amount of coverage be reviewed annually to insure that the coverage is adequate for current operations.

III-F-15 - Council Minutes - We noted no transactions requiring approval which had not been approved by the Council.

III-G-15 - Cash and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

III-H-15 - Urban Renewal Annual Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1.